Manitoba

MANITOBA DEVELOPMENT CORPORATION

ANNUAL REPORT

MARCH 31, 1991

91-07055/

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MANITOBA DEVELOPMENT CORPORATION

June 13th, 1991.

Honourable Eric Stefanson,
Minister Responsible for the Administration
of The Development Corporation Act,
Room 358, Legislative Building,
Winnipeg, Manitoba
R3C 0V8

Dear Mr. Stefanson:

In accordance with the provisions of Part I and Part II of the Development Corporation Act, enclosed is the report on the operations and activities of the Manitoba Development Corporation during the fiscal year ended March 31, 1991.

Respectfully submitted on
behalf of the Board of Directors.

Marcel Taillieu

Marcel Taillieu,
Chairman.

302 - 155 CARLTON ST., WINNIPEG, MANITOBA R3C 3H8
PHONE: 949-1844
FAX: 947-2318

REPORT OF THE GENERAL MANAGER

The Manitoba Development Corporation (M.D.C.) acts as the monitor for Government loan programs and collects its own loans made before to 1977.

In addition, M.D.C. continues to monitor portions of the sale agreement to New Flyer Industries Limited that runs out in July 1991. All the old Flyer warranties have now expired. There are still several personal injury and warranty law suits in progress that will probably take 1 or 2 more years to resolve. Although we expect to defend successfully these claims, we have made a provision for expected legal and other costs. If, in any year, the Flyer costs exceed our operating profits, the net amount is recoverable from the Province.

In August 1990, the Manitoba Development Corporation and the Communities Economic Development Fund separated. This separation will result in lower costs for M.D.C. in the long run, but severance costs reduced our profits for 1990/91. M.D.C. and C.E.D.F. shared certain costs. Upon separation, M.D.C. billed C.E.D.F. for those costs. To date, C.E.D.F. has not paid for all of those costs. Consequently, certain costs such as salaries are overstated. We hope that by next year end these matters will finally be settled and the cost reductions recorded.

I am pleased to report continued progress in cost control. During the year, our staff complement reduced to four. Effective December 31, 1991, our staff will reduce to two, despite increasing our overall portfolio from $40,339M to $45,193M. As a result, our salaries and administrative costs have come down from 1.4% to 1.25% of managed portfolio. This reduction is part of our overall goal to remain competitive with commercial lending agencies.

During the year, we disposed of the remaining Flyer assets. Also during the year our operating profit increased. We were, therefore, able to repay completely our debt to the Province. Since we will not incur any interest expense after this year end, we will be generating a positive cash flow. Under our present Act we cannot legally pay dividends to our shareholder, the Province. However, currently there is a change in our Act that is in process. Once this revision is passed, we will be able to pay dividends to the Province. We expect the first year dividends to exceed $300,000.

I would like to express our sincere appreciation to our Directors who have provided invaluable guidance through their rounded business experience. There continues to be delicate negotiations that need all the available experience of our Board. To close, I would like to express again my sincere thanks to our staff who again have had to carry on during the difficult times of downsizing.

Respectfully submitted,

W.E. Chiswell, C.A.
General Manager.

DIRECTORS AND OFFICERS AT MARCH 31, 1991

BOARD OF DIRECTORS

Marcel Taillieu, Chairperson

Grace Gillespie, Vice-Chairperson

Lorette Courcelles

Arnold Morberg

Aaron Redekop

Eldon Ross

Lorne Sharfe

OFFICERS

W.E. Chiswell, General Manager

A.Y. Musgrove, Corporate Secretary

Deloitte & Touche

Deloitte & Touche
Chartered Accountants

360 Main Street, Suite 2000
Winnipeg, Manitoba R3C 3Z3

Telephone: (204) 942-0051
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AUDITORS' REPORT

To the Board of Directors of
Manitoba Development Corporation

We have audited the balance sheet of Manitoba Development Corporation as at March 31, 1991 and the statements of operations and deficit and changes in cash position and the schedules of loans receivable, equity investments, accumulated losses and net divestiture costs, and assistance granted or to be granted for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1991 and the results of its operations and the changes in its cash position for the year then ended in accordance with generally accepted accounting principles.

Deloitte & Touche

Chartered Accountants

Winnipeg, Manitoba
May 24, 1991

MANITOBA DEVELOPMENT CORPORATION
BALANCE SHEET
as at March 31, 1991
(with 1990 figures for comparison)

ASSETS

	1991		1990	
Current Assets				
Bank	$201,472		$104,566	
Deposits - Province			679,191	
Due from the Province (note 4)	78,721		32,374	
Accounts receivable	3,507		29,764	
Provision for divestiture recoveries (note 7)	176,278		1,033,791	
Total		459,978		1,879,686
Investment Assets				
Loans made prior to 1977	5,349,673		6,024,113	
Less: Allowance for loss	0		(200,337)	
Total		5,349,673		5,823,776
Asset Managed for the Province, Part II				
Loans receivable, Schedule 1	17,481,962		15,734,951	
Equity investments, Schedule 2	11,541,651		6,570,239	
Total		29,023,613		22,305,190
Fixed Assets				
Furniture and equipment, less accumulated depreciation of $0 (1990 - $69,995) (note 2d)		20,725		45,146
TOTAL ASSETS		$34,853,989		$30,053,798

The accompanying notes are an integral part of these financial statements

Approved by the Board:

Angela Gonnella

M. D. Faulkner

LIABILITIES

	1991		1990	
Current Liabilities				
Accounts payable		$149,048		$70,053
Other Liabilities				
Deferred revenue	92,902		37,494	
Accrued pension liability (notes 2 & 3)	297,000		198,000	
Total		389,902		235,494
Operating advances supplied by the Province , interest bearing		0		4,074,002
Funds provided by the Province, Part II		29,023,613		22,305,190

EQUITY

Equity				
Share capital,authorized and issued 500,000 shares at $100. each	50,000,000		50,000,000	
Deficit, Statement 2	(44,708,574)	5,291,426	(46,630,941)	3,369,059
TOTAL LIABILITIES AND EQUITY		$34,853,989		$30,053,798

MANITOBA DEVELOPMENT CORPORATION
STATEMENT OF OPERATIONS AND DEFICIT
For the year ended March 31, 1991
(with 1990 figures for comparison)

Statement 2

	1991		1990	
Part 1				
Revenue				
Loan interest and guarantee fees	$958,478		$799,995	
Cost recoveries (note 5)	162,263		176,967	
Total		1,120,741		976.962
Expenses				
Interest paid	444,296		454,741	
Salaries and benefits	466,198		417,348	
Administration	96,473		132,845	
Total		1,006,967		1,004,934
Operating (Loss) Revenue		113,774		(27,972)
Part II				
Interest earned for Province	1,188,554		768,997	
Interest reimbursed to Province	1,188,554		768,997	
Total		0		0
Net Operating (Loss) Revenue		113,774		(27,972)
Net divestiture recoveries, Schedule 3		1,808,593		3,144,928
Net Income for the Year		1,922,367		3,116,956
Deficit at the beginning of year		(46,630,941)		(49,747,897)
Deficit at the end of year		($44,708,574)		($46,630,941)

The accompanying notes are an integral part of these financial statements.

MANITOBA DEVELOPMENT CORPORATION
STATEMENT OF CHANGES IN CASH POSITION
for the year ended March 31, 1991
(with 1990 figures for comparison)

Statement 3

	1991		1990	
Operating activities				
Net Income for the year	$1,922,367		$3,116,956	
Items not affecting cash flow:				
Depreciation	17,074		6,273	
Allowance for doubtful accounts	(200,337)		50,337	
Accrued pension liability increase	99,000		100,000	
Deferred revenue increase	55,408	1,893,512	23,994	3,297,560
Loan Activities:				
Part I				
Loan principal payments		622,054		468,160
Part II				
Loan principal payments	883,527		1,840,323	
Loans issued	(10,640,581)	(9,757,054)	(10,614,030)	(8,773,707)
Net change in provision for divestiture costs		857,513		(3,588,152)
Net change in other non-cash balances:				
Part I	790,467		(835,181)	
Part II	69,685	860,152	(43,069)	(878,250)
Sale (purchase) of office equipment		7,362		(5,422)
TOTAL		(5,516,461)		(9,479,811)
Financing activities				
Advances from Province of Manitoba:				
Part I	(4,074,002)		684,135	
Part II	9,687,369	5,613,367	8,816,776	9,500,911
Increase in cash		96,906		21,100
Cash at beginning of year		104,566		83,466
Cash at end of year		$201,472		$104,566

The accompanying notes are an integral part of these financial statements.

MANITOBA DEVELOPMENT CORPORATION
SCHEDULE OF LOANS RECEIVABLE
as at March 31, 1991
(with 1990 figures for comparison)

Schedule 1

Part II: (note 1)	1991	1990
Manitoba Industrial Opportunities and Business Support Programs	$22,750,335	$23,805,879
Other programs	2,200,003	2,661,850
	24,950,338	26,467,729
Less allowance for:		
Forgiveness	(5,954,353)	(8,442,327)
Doubtful accounts	(1,514,023)	(2,290,451)
	(7,468,376)	(10,732,778)
Net Loans Receivable	$17,481,962	$15,734,951

The accompanying notes are an integral part of these financial statements.

MANITOBA DEVELOPMENT CORPORATION
SCHEDULE OF EQUITY INVESTMENTS
as at March 31, 1991
(with 1990 figures for comparison)

Schedule 2

Part II:	1991	1990
A.E. McKenzie Co. Ltd.(at cost)	$12,154,000	$12,154,000
Less: Capital restructuring	(6,643,761)	(6,643,761)
Share redemption	(249,998)	
Subtotal	5,260,241	5,510,239
Vision Capital Fund		
Limited Partnership - original cost	1,250,000	1,250,000
- advances	6,210,160	
	7,460,160	
Less: Write-offs and provision for losses	1,178,750	190,000
Subtotal	6,281,410	1,060,000
Equity investments and advances less allowances	$11,541,651	$6,570,239

The accompanying notes are an integral part of these financial statements.

MANITOBA DEVELOPMENT CORPORATION
SCHEDULE OF ACCUMULATED LOSSES AND
NET DIVESTITURE COSTS OF FLYER INDUSTRIES (note 7)
As at March 31, 1990
(with 1990 figures for comparison)

Schedule 3

	March 31,1990	Divestiture Costs For 1990/91	March 31,1991
Investment Losses:			
Write off of shares	$34,432,106		$34,432,106
Write off of loan receivable, March 31, 1986	7,280,874		7,280,874
	41,712,980		41,712,980
Less: Proceeds from sale of shares	(1,000,000)		(1,000,000)
Loss on investment	40,712,980		40,712,980
Acquisition Costs, July 15, 1986:			
Liabilities assumed	13,368,068		13,368,068
Less: Assets acquired	(12,905,144)		(12,905,144)
Loss on acquisition	462,924		462,924
Other Costs:			
Write down of assets to realizable value	4,667,926		4,667,926
Bank guarantees	19,959,399		19,959,399
Outstanding cheques	3,450,030		3,450,030
Warranty obligations	17,878,413	(1,870,814)	16,007,599
Fixed asset acquisitions	4,878,781		4,878,781
Write off of loans & interest	3,815,348		3,815,348
Purchase of minority shares	332,522		332,522
Severance payments & consultations	1,246,894		1,246,894
Insurance	500,999		500,999
Occupancy costs	292,953		292,953
Professional fees	690,878	62,221	753,099
Equipment removal	219,928		219,928
Inventory management	313,914		313,914
Sundry	333,090		333,090
	58,581,075	1,808,593	56,772,482
Less Other Proceeds:			
Sales of fixed assets	(3,323,000)		(3,323,000)
Proceeds from work-in-process	(3,016,890)		(3,016,890)
Lease proceeds	(1,368,733)		(1,368,733)
Sundry	(268,672)		(268,672)
	(7,977,295)		(7,977,295)
Net accumulated losses and divestiture costs of Flyer Industries Limited	$91,779,684	($1,808,593)	$89,971,091

The accompanying notes are an integral part of these financial statements.

MANITOBA DEVELOPMENT CORPORATION Schedule 4
Report of Assistance Granted or to be Granted
for the year ended March 31, 1991

UNDER PART II OF THE DEVELOPMENT CORPORATION ACT:

MANITOBA INDUSTRIAL OPPORTUNITIES PROGRAM

Trimel Corporation	
Loan - Interest -Free - 5 year term	2,947,000
Macleod-Stedman Inc.	
Loan - Interest - 5 year Crown Corporation Rate - 7 year term	1,500,000
Western Glove Works Ltd.	
Loan - Interest - 10 year Crown Corporation Rate - 7 year term	600,000

MANUFACTURING ADAPTATION PROGRAM
Loans - Interest - Crown Corporation borrowing rate less 2% - 5 year term

Snak Tyme Foods Ltd.	50,000
Equinox Industries Ltd.	67,500
Cresting Unlimited	35,000
Westland Steel Products Ltd.	32,000
Midland Manufacturing Limited	100,000
WMC Industries Ltd.	30,000
Spectrum Manufacturing Company Limited	50,000
Furgale Industries Ltd.	100,000
Carman Granite & Marble Works	20,185

The accompanying notes are an integral part of these financial statements.

MANITOBA DEVELOPMENT CORPORATION

Notes to Financial Statements
for the year ended March 31, 1991

1. Nature of Operations and Economic Dependence:

The Manitoba Development Corporation (the Corporation) provides loans and guarantees under Part I and Part II of The Development Corporation Act. The activities under Part I and Part II are accounted for separately. Part I activities are accounted for separately. Part I activities are undertaken at the initiative of the Corporation, while Part II activities are at the direction of the Province of Manitoba. The extent of administration relating to Vision Capital is limited to fund disbursement activity. The Corporation's lending operations under Part I were suspended effective November 15, 1977 except since then, further guarantee and loan commitments have been made on the direction of the Province of Manitoba. The Corporation is dependent on the Province of Manitoba for its continued operations.

2. Significant accounting policies:

(a) Losses under Part I are charged against operations of the Corporation. When divestiture costs related to Flyer Industries Ltd. exceed operating profits, they are recoverable from the Province. Losses under Part II are the responsibility of the Province and are charged directly against advances received from the Province.

(b) The employees of the Corporation are not members of the Civil Service of the Province but they contribute to, and are pensionable under the Civil Service Superannuation Fund. In accordance with the provision of the Manitoba Civil Service Superannuation Act, the Corporation contributes 50% of the pension paid to retired employees. The current pension expense is determined on the basis of an actuarial valuation. In addition, the past service obligations are being charged to operations over a ten year period. Payments to pensioners are charged against the liability account.

(c) The Corporation was jointly administered with the Communities Economic Development Fund (CEDF). During the year, CEDF moved to Thompson. Common administrative expenses were reviewed and allocated between CEDF and the Corporation on a proportionate basis. Certain allocations are still under consideration. The differences are not material.

(d) Office furniture and equipment was depreciated at 10% on a straight line basis. During the year, most of the assets were sold. The remaining assets were revalued and the difference was written off as depreciation.

3. Accrued pension liability:

During 1989, the Corporation changed its method of accounting for pension expenses. In fiscal years prior to 1989, the Corporation charged to operations contributions to the Manitoba Civil Service Superannuation Fund which amounted to 50% of the pension payments made to retired employees. Beginning in the 1989 fiscal year, the Corporatio has recorded a provision to fund current service obligations and to fund past service obligations over a ten-year period. On the basis of an actuarial report, the unfunded liability amounted to $316,612 at December 31, 1990 ($366,147 at December 31, 1989). This change in accounting policy for pension expense and obligations has been applied prospectively and has resulted in an additional $199,000 being charged to operations in 1990 and 1991.

4. Due from Province of Manitoba:

The amount due from the Province represents the recoverable balance outstanding for costs or fees incurred by the Corporation on behalf of the following operations:

	1991	1990
The Pas Forestry Complex, (note 6 c)	$9,889	$2,509
Destination Manitoba	26,344	29,865
Manitoba Industrial Opportunities Program	40,000	
Manufacturing Adaptation Program	2,488	
	$78,721	$32,374

5. Recoveries from the Province of Manitoba:

The Corporation is entitled to recover administrative costs for all Part II programs. During the year, the Corporation recovered costs for administering the following programs:

	1991	1990
Tourism Agreement	$4,000	$11,600
Destination Manitoba	60,686	48,298
Manitoba Interest Rate Relief Program		4,909
Manitoba Industrial Opportunities Program	61,981	103,166
Manufacturing Adaptation Program	33,790	8,994
Other	1,806	
	$162,263	$176,967

MANITOBA DEVELOPMENT CORPORATION

Notes to Financial Statements
for the year ended March 31, 1991

6. Contingent Liabilities and Commitments:

(a) Bank Guarantees, Part II:

The Corporation has provided guarantees under the Manitoba Industrial Opportunities Program as follows:

	1991	1990
Gravure Graphics Ltd.	$0	$250,000

(b) Commitments, undisbursed balances of approved loans:

Part II	1991	1990
Vision Capital Fund	$23,789,840	$30,000,000
Manitoba Industrial Opportunities Program	4,312,267	3,322,114
Canada Manitoba Tourism Agreement	474,500	2,196,341
Manufacturing Adaptation Program	575,520	437,868
	$29,152,127	$35,956,323

(c) The Pas Forestry Complex:

In accordance with the terms of an agreement dated March 25, 1975, between Manfor Ltd., the Province and the Corporation, the Corporation has a continuing responsibility to press and defend all claims in connection with the affairs of the several companies comprising The Pas Forestry Complex. All costs incurred by the Corporation in respect of such claims will be reimbursed by the Province.

The remaining funds in the Receiver's accounts will be transferred to the Province when the Receiver settles all outstanding legal issues.

(d) New Flyer Industries Limited:

Under the terms of the Divestiture Agreement described in Note 7, the Manitoba Development Corporation is contingently liable for and the Province of Manitoba is ultimately responsible for a bank guarantee, performance bonds, litigation and contingencies.

MANITOBA DEVELOPMENT CORPORATION

Notes to Financial Statements
for the year ended March 31, 1991

7. Flyer Divestiture:

On July 15, 1986, the Manitoba Development Corporation entered into an agreement with BV Carrosseriefabriek den Oudsten en Zonen by which the Corporation divested itself of its interest in Flyer Industries Limited. Under the terms of this agreement, the shares were sold to BV Carrosseriefabriek den Oudsten en Zonen for $1,000,000 and the Corporation contracted to receive certain revenues and pay certain costs as described in Schedule 3. The net divestiture cost and accumulated losses is estimated to be $106 million allocated as follows:

MDC Schedule 3	$89,971,091
Province of Manitoba	14,065,000
Total	$104,036,091

The net divestiture costs and accumulated losses of $89,971,091, related to the Corporation are comprised of payments, net of receipts, to March 31, 1991 of $89,794,813 and a provision of $176,278 for future anticipated net recoveries. A summary of changes in the provision account is as follows:

Balance, March 31, 1990		$1,033,791
Less:		
Reduction for payments (net of receipts)	($951,080)	
Divestiture cost recoveries, Schedule 3	1,808,593	857,513
Balance, March 31, 1991		$176,278